P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 4
Committee of the Whole
June 25, 2019

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by

Denise Schofield, Acting Chief Administrative Officer

DATE: May 1st, 2019

SUBJECT: Commercial and Small Business Taxation

ORIGIN

A motion passed by Regional Council on\ April 28, 2015, requesting a "staff report and recommendations for changes to the commercial tax structure and for implementation approaches that shall:

- Address concerns regarding small and independent businesses in the central business district and main street and commercial corridors.
- Outline options to address these issues.
- Contain pros and cons of various courses of action".

Following a staff report on November 10, 2015, Regional Council passed a motion to:
http://legacycontent.halifax.ca/council/agendasc/documents/151110cow4.pdf

1. Request that the Provincial Government, in order to increase predictability for taxpayers, consider making changes to the legislation governing the assessment process so that:
   a. The annual valuation is averaged over a three year period or,
   b. The full assessment roll is updated every three to four years, as is the current policy in Saskatchewan and Ontario.

2. And to request amendments to the Halifax Regional Municipality Charter that would provide Council with greater legislative authority in setting taxes and charges respecting the general tax rate and area rates for both residential and commercial properties including
   a. The authority for Council to determine and set rates and charges that are different for:
      i. Different areas of the Municipality
      ii. Different categories and size of businesses, and
      iii. Different classes of building and size of structures, and
   b. The authority for Council to determine and set:
      i. A rate or charge for frontage on a street
      ii. A uniform charge or amount of tax that is payable per property or per dwelling unit
      iii. A maximum and minimum charge or amount of tax that is payable, and
      iv. A surtax or graduated rates.

RECOMMENDATION ON PAGE 2

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, excerpts below.

Section 92C (Commercial Development District)
(2) … where the Council considers it necessary or advisable, the Council may, by by-law, provide for
(a) the phasing-in of an increase in the taxable assessed value of an eligible property located in a commercial development district over a period not exceeding ten years; and
(b) the cancellation, reduction or refund of taxes paid as a result of the phasing-in of the increase.

(3) Subject to subsection (4), a by-law made pursuant to subsection (2) must establish, in accordance with a municipal planning strategy, one or more commercial development districts.

(4) A commercial development district may only be established in an area that is serviced by wastewater facilities and a water system.

(5) Subject to subsection (6), a by-law made pursuant to subsection (2) may
(a) where the taxes paid in the current year in respect of an eligible property exceed the taxes payable in respect of the eligible property under the by-law, authorize the refund of the amount by which the taxes paid exceed the taxes payable under the by-law;
(b) prescribe the base year for the purpose of a formula authorized by clause (c); and
(c) prescribe a formula to be applied to any increase in the taxable assessed value in a year above the taxable assessed value in the base year for the purpose of calculating the taxes payable.

(6) A formula prescribed by clause 5(c) must not result in the calculation of the total increase in taxes payable during the phase-in period being less than fifty per cent of the total increase in taxes that would be payable during the same period in the absence of the application of the formula.

Section 93 (Estimates of Required Sums)
(1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.
…
(8) The tax rates must be those that the Council deems sufficient to raise the amount required to defray the estimated requirements of the Municipality.

Section 94 (Tax Rates)
(1) The Council shall set separate commercial and residential tax rates for the area of the Municipality determined by the Council to be:
(a) a rural area receiving a rural level of services;
(b) a suburban area receiving a suburban level of services; and
(c) an urban area receiving an urban level of services.

RECOMMENDATION

It is recommended that Halifax Regional Council direct the CAO to:

1. Develop and return to Regional Council for its consideration a by-law to phase-in commercial tax bills that:
    a. uses a three-year rolling assessment average,
    b. is targeted towards properties with assessment growth more than 5 percent above the HRM average,
    c. is implemented starting in fiscal year 2021-22, and
    d. has a renewal requirement for it to extend beyond 2023-24; and,

Recommendation continued on next page

2. work with the business community on implementation of a three-year rolling average; and

3. direct staff to return to Regional Council with a program review before the end of 2023-24.

BACKGROUND

Overview of 2015 Report to Council

In November 2015, staff presented a comprehensive report on commercial tax options for small business. This report was the culmination of business and industry surveys, literature reviews and staff analysis of different options. The report outlined how the commercial tax structure functions and the diversity of the commercial sector. The entirety of the report and attachments can be found the following link: http://legacycontent.halifax.ca/council/agendasc/documents/151110cow4.pdf

The key takeaways from the report were as follows:

- Most businesses lease or rent their premises and hence pay commercial tax through their monthly payments. Other businesses own their own properties or, in many cases, own multiple properties. The many types of properties range from large office towers to small rural businesses, shopping malls, big box stores, funeral homes, gas stations and vacant commercial land.

- HRM has extensive taxation and assessment data, but it has no data on which businesses are affiliated with each other and whether a specific property is owned or leased by a small or a large business.

- HRM can not require a landlord to pass through any tax savings to tenants.

- HRM commercial taxes averaged $3.09 per square foot of space. However, taxes payable vary across individual properties due to building type, use and condition; due to land values; building sizes, ages and relative conditions of structures.

- Higher tax burdens are not limited to any one area of the Region. Rather, higher tax burdens and low to modest tax burdens often appear in the same general area. Generally, taxes appear to be higher in high traffic areas such as major corridors and roadways.

- On average, commercial taxes in HRM are comparable to most other Canadian cities.

- Predictability was the most common and substantive issue for commercial properties. Tax-bill volatility creates difficulty in business model design and choice of relative location in the short term.

- The report concluded that any budget-neutral changes,[1] would be unlikely to enhance regional competitiveness.

- Regional Council passed a motion requesting legislative changes that would increase predictability for taxpayers through changes in assessment, and “greater legislative authority in setting taxes and charges” including over categories and size of business, buildings, structures and in different areas of the municipality.

New Legislation and Analysis

In 2016 the Provincial Government passed two bills. The first (Bill 177) allowed for phasing of assessment in Commercial Development Districts (CDD). It was designed for individual or groups of businesses and provided municipalities the ability to phase-in property tax bills over 10-years in a “commercial development

[1] Implies policy changes that do not alter revenue collected, often called “deficit-neutral” in public finance.

district". While designed for economic development purposes it has been determined it can be used to phase-in commercial property taxes across most of the Region over a three-year period.

The second piece of legislation (Bill 52), gave power to HRM under Section 94(2) to levy different rates at various levels of assessment, square footage, frontage or some combination thereof. Rates could also be limited to a specific area of HRM. The permutations and combinations associated with these options are numerous and complex. The powers in this bill were the subject of substantial internal analysis along with discussion with business groups.

In Autumn 2017 HRM staff commissioned an econometric study of the impacts of commercial tax on investment in capital. Economic analysis of the impacts of the tax needs to include what the municipal tax contribution is to the cost of capital, meaning the marginal effective tax rate (METR) on capital investment.[2] This is key to understanding any negative impacts municipal tax may be having on the behaviour of business. The result of the econometric study by CanMac Economics showed adjusting commercial property tax to incentivize businesses would have negligible impact. Using a general equilibrium approach, the report found that a 50 per cent reduction in property tax levied would have less than a 2 per cent impact on new building in the central business district (CBD). Put another way, property tax reduction is not a material incentive to interest rate sensitive sectors like commercial real estate.

Summary: Consultations with Business, 2018 to Present Day

In 2018 staff conducted a series of three workshops with the business community. In attendance at those sessions were representatives of the Business Improvement Districts (BIDs), the Chamber of Commerce, Canadian Federation of Independent Business (CFIB) as well as several independent businesses.

First Workshop, January 2018

The first workshop was broken down into three sections: 1) overview of the issue to date, 2) Canmac Economics presentation of findings, and 3) Presentation of Objectives and Options. Key principles for determining success of any changes included agreement on what is equitable or fair; the ability to administer any changes; and acceptance that other properties will need to pay more if some are to pay less.

The options presented focused on nine hypothetical examples of different tax adjustments:

Options:

- Special Main Street Tax Rate
- Special BID Tax Rate Organize and conclude
- Special Tax Rates by Zone
- Lower Taxes for First dollar of Assessment
- Lower Taxes for High Tax per Sq. Ft properties
- Square Footage Tax
- Maximum Tax per Sq. Ft
- Frontage Tax
- Land Tax

Broad categories of different-types of tax relief discussed included geographic-based relief, use of tiered tax rates on assessment, frontage or square footage taxes, and tax relief to incent development, like taxing land only. To potentially achieve their individual objectives the attendees indicated interest in geographic based solutions such as special tax rates for BIDS and multi-tiered tax rates.

After the workshop, staff re-focused analysis of potential options to geographic-based options such as tax-relief using BID and designated planning boundaries, along with multi-tiered tax rates and phasing in of assessment. Staff noted that assessment phase-in (averaging) does not constitute long-term tax-relief for commercial properties but would help those properties increasing at the quickest rates.

Second Workshop, June 2018

The second workshop focused on two key policy areas: phasing in assessment (rolling average) and understanding how planning and property tax should work together. The workshop featured a presentation on the implications of the Centre Plan for development by Planning staff. Discussion focused on how lower tax rates for corridor and main street areas may be justified under certain conditions.

Finance staff then presented details of a phase-in mechanism to attendees, focusing on legislative considerations and what type of properties were most likely to benefit. Attendees remarked that predictability was a substantial issue and a rolling average of assessment would likely be welcomed by business.

Planning staff indicated that the Centre Plan could enable greater development pressure in the Centres/Corridor areas and that Commercial Development Districts might therefore be appropriate, enabling the phase-in commercial assessment. The key challenge with this approach is that areas like Bedford, Sackville and Spryfield would be ineligible, making an amendment to the Regional Plan necessary.

There was some agreement that for geographic boundaries to be used for tax-relief, planning boundaries must be used for credibility and simplicity reasons. The workshop ended with a decision to return in the Fall for a final workshop that modelled specific options and sub-options. These were as follows:

1. Tax relief using BID or Centre Plan boundaries
2. Multi-tier Tax Rate
3. Multiple Zone Option
4. Assessment Rolling Average

Third Workshop, October 2018

Given the consensus from attendees, presentations were given modelling each of the four options discussed at the June Workshop. The first option (Tax relief using BID or Centre plan boundaries) had four variants:

a) Tax Relief to all Centres /Corridors (as per draft Centre Plan)
b) Tax Relief to BID areas (Lower-Tax Rate relative to General Rate)
c) Tax Relief to BID areas for properties less than $5M in value.
d) Tax relief to highest tax BIDs (Tax/ Sq. Convergence)

Staff noted the complexity inherent in each of these options and that, even if carefully designed and implemented, may not help small properties or accomplish Council's stated goal(s). There was also discussion as to how planning boundaries outside the Centre/Corridor area might be utilized and how assessment averaging interacted with the other options.

The workshop concluded with business groups wanting to see greater analysis of the Multiple Zone option, along with consensus that a rolling average should be pursued on predictability grounds. With the conclusion of the October workshop; businesses spent the Fall forming their preferred policy options given the information provided in the workshops. Staff provided five-zone option modelling immediately following the workshop. There was no final overall recommendation from the participants although the BIDs did provide written recommendations including aligning with planning values; "differentiated" tax rates for "downtown and traditional commercial main streets"; assessment phasing to "mitigate assessment spikes, particularly in the downtown and traditional commercial main streets"; and, initiating a cost of servicing study.

DISCUSSION

Summary of Critical Issues perceived by Business:

HRM's property tax powers are limited to taxing the owners of properties, regardless of the tenant. One property may have multiple tenants including small businesses, or a mix of large, small, local and non-local businesses. HRM cannot direct the owner of a property to pass on the value of any tax relief towards any tenants, small business or otherwise. While the official roll does not include any information on tenants, other research shows the majority of small businesses are tenants, not owners.

Given the considerable research, analysis and consultation completed on this file since 2015, understanding has been gained on what the issues are, and how HRM may be best placed to provide policy solutions. The critical issues perceived by business can be grouped into three areas.

1. Commercial taxes are seen by the business sector as high relative to both residential taxes and the cost of municipal services. For instance, the Commercial tax rate is nearly three times higher than the residential tax rates even though the value of services provided likely don't exceed those provided to the residential sector. The business sector has suggested that HRM should undertake a cost of servicing study to better understand the nature of commercial taxes relative to commercial services.

2. Commercial taxes are seen as unfair. Small business is seen as paying higher taxes than larger businesses, including large retailers. Downtown taxes are seen as unfairly high and the tax system is not tied into planning objectives. While it is true that land prices can distort the taxation of small properties, assessments differ for a wide variety of reasons (eg. quality of construction, age and condition of property, desirability of specific locations, type of building). All urban businesses pay the same commercial tax rate. As such, taxes levied on large businesses are often as high, and frequently higher, than those levied on small business. Within any area of the municipality there exist properties that are both high tax and low to moderate tax.

3. Unpredictability of annual assessment changes and their impact on taxes. Changes in the value of land and properties can occur without warning. Sometimes this is due to new development or demand for land. This uncertainty is difficult for business as it can lead to unexpected or sharp increases in taxes.

Each of these issues might require a different solution:

a. **Reducing the overall General Tax Rate** – This is the easiest and most effective way to reduce commercial tax bills. It would help deal with the tax gap between commercial and residential taxation and with overall competitiveness relative to areas outside of HRM. It does not deal with perceptions of unfairness arising from the property tax system. However, of all the options reviewed it is the **only** option that reduces the taxes of all small businesses.

b. **Special Tax Relief** – Fairness issues have been examined through looking at new, special tax options. Under new powers provided to HRM there are several areas where the Region could alter its existing property tax structure: Geographic tax relief, Multi-rate tax relief and Zone taxes.

    i. Each of these will shift taxes within the business community creating a series of winners and losers. No one measure consistently lowers small business tax, rather all of them will increase taxes on some small businesses, many of who lease space.
    ii. While designed to deal with what are seen as fairness issues, each of these options introduce distortions into the property tax system and carry a high risk of unintended consequences. Fairness remains a subjective concept and some businesses will see these changes as being fairer while others will view them as less fair.

c. **Phasing of Taxes** – Unlike the current system, three-year phasing of assessments allows business the time to adjust their operation in a time of rising assessment. This approach basically delays the shift in taxes that arise due to some properties rising in value faster than others and provides greater predictability in taxation. As the pace of development places greater and greater pressure on land prices, a mechanism such as this would provide many smaller properties greater time to adjust to new circumstances.

d. **Alternatives to Assessment-Based Tax** – There are alternatives to a property tax system including those levied on physical attributes such as frontage, land, square footage or size of building and/or property. Frontage is one of the key drivers of municipal costs and, while frontage data is available, does not seem to appeal to many businesses. Metrics for square footage and building size are not consistently available for all properties meaning it would be difficult to implement such a system. As with special tax relief, taxes will be shifted amongst multiple businesses. While these options have been discussed at business workshops, none have been fully developed as options for presentation to Council.

Summary of Potential Policy Options

Within these categories, staff have worked with representatives of the business community to identify options which can lower commercial taxes for small businesses. While there are many variants, staff can identify five key alternatives for special tax relief. Additional details are included in Attachments A through E.:

1. **BID Tax Rate** – This option would create a separate tax rate for Business Improvement Districts (BIDs) that is 10% lower than the general tax rates. Key impacts are:
    a. BID taxes would decline 7.5% while taxes outside the BID areas would rise by 2.5%;
    b. Any small businesses outside the BID area would see higher taxes;
    c. Inequities would exist between those in the BID and those outside the BID, these would be more serious if businesses are in the same neighborhood or are direct competitors;
    d. BID boundaries were not created for taxation purposes and some areas of the municipality may wish to establish BIDs to acquire lower taxes;
    e. Current BID tax levels range from below average ($1.88 per square foot) to above average ($4.68 per square foot). This means any shift in taxes would lead to low tax areas of the municipality receiving tax relief while higher taxed areas that are outside a BID would see their taxes rise.

2. **Centres/Corridors** – This option would create a separate tax rate for the Centres/Corridors that is 10% lower than the general tax rates. Key impacts are:
    a. Taxes in the Centre/Corridor areas would decline 9.6%, while taxes elsewhere would rise by 0.6%;
    b. Any small businesses outside the area would see higher taxes, including those that border on the Centre/Corridor areas;
    c. Inequities would exist between those in the Centres/Corridors and those outside. Small business outside the area would pay higher taxes to support those inside the Centres/Corridors, even if the latter were not small business;
    d. While average taxation in the Centres/Corridors can be significant, other areas of the municipality can also have significant tax levels. Other areas could not be easily added to the tax relief.

3. **Tax Relief to Highest Taxed BIDs** – Reduce taxes on any BID that has taxes 20% above the average. Key impacts are:
    a. Taxes in Spring Garden BID would decline by 20.7% and in Downtown by 2.9%. (Any BID would be eligible for relief if its taxes rose). Taxes elsewhere would rise by 1.2%;
    b. Any small businesses outside those 2 BID areas would see higher taxes;
    c. Provides relief to highly taxes areas, although many of those receiving tax relief may not be small businesses.

4. **Five Tax Zones** – Divide HRM into five commercial tax zones, each with its own tax rate. Provide a reduced rate for urban areas (outside the Central Business District) and a higher tax rate for Business Parks:
    a. Taxes in the Urban area would decline by 2% while taxes in the Business Parks would

increase by 8%.
   b. Any small businesses in the Business Park would see higher taxes.
   c. Conceptually this supports downtown businesses by creating a ten percent tax differential. However, the actual benefit to urban areas (2%) is small. The much higher taxes on the business parks could create distortions and unintended consequences without making the region more competitive.

5. **Multiple Tax Rates** – Levy tiered rates on assessment so that the entire assessed value of a business is not taxed at one rate. In this example, assessment between $400,000 and $1.4million would be taxed lower, and assessment above $1.4m would be taxed higher.
   a. The same tax rates would apply to all business. Unlike other options there would be no geographic restriction or distortion.
   b. This approach would be effective at targeting high-tax small properties with 70% of those properties benefiting. However, only 10% of small properties are high-tax and many of the remaining small properties would face higher tax bills.
   c. Increases the complexity of the tax system.

Taken as a whole, none of the above options address the core business concern of predictability. These options act as redistributive measures to alter the tax burden between commercial properties based on certain criteria.

Recommended Policy Change

Three-year Rolling Average:
A different approach from special tax relief is to look at phasing assessments in over time. Under the current tax system property values are reassessed every year. Normally, there are a minority of businesses whose tax rate increases substantially above the average and therefore derive very little benefit from any general tax rate reduction.

The increasing pace of development in HRM has led to greater pressure on land prices, often meaning properties with rapidly increasing land prices have greater tax increases in any one year. These businesses frequently find they have insufficient notice to alter their operations and adjust to the higher property tax in the first year.

A three-year rolling average program would be limited to the amount of the increase more than five percent above the average assessment growth. There are several key advantages to using a five percent threshold.
1. It would exclude those properties that have only a small change in assessment, meaning they would not have to deal with the added complexities of averaging.
2. The revenue impact would be smaller, meaning the commercial tax rate would need to rise less then without the three-year rolling average.

A three-year rolling average program would help businesses by giving them more advanced notice of assessment changes and spreading the higher tax increase over three years with the full taxes applied by the third year. The advanced notice of the increase would provide them more time to make adjustments to address the higher assessment. This phased in increase means there would be a tax revenue loss associated with each of the businesses within the program. Any lost revenue from the three-year averaging would be offset through an increase in the commercial tax rate or through reduced expenditures or other funding sources. Under the enabling provisions in the HRM Charter, the amount of the lost revenue is limited to no more than 50% of what would otherwise be payable.

As an example, if a three-year rolling average were in place during 2019 nearly 600 properties who had taxes rise more than the 5% threshold of assessment growth would have had those increases spread out over Years 2 and 3. Conversely, the other 4,800 commercial properties would have paid an additional 6 cents per $100 of assessment with the increased commercial tax rate offsetting the $4.8 million revenue loss created by the three-year rolling average. Likewise, in Year 2 there would likely be another group of firms that exceed the 5% assessment threshold and would have their increases spread out over years 3 to

4. (This could include some businesses that had also been averaged in Year 1).

It is important to understand the 600 propriety owners would have the higher taxes from 2019 spread across three years with each year seeing a proportional increase until the full taxes from 2019 were in place in 2021.

This is a more complex system. It requires a by-law, communication with taxpayers and lead time to implement. PVSC has indicated they should be able to provide three-year assessment averages for HRM to use. A targeted implementation date would be 2021-22. Staff intend to consult with the business community on the specific design of the three-year rolling average, including the five percent threshold. Some of the other limitations include:

- The Municipal Planning Strategy (MPS) must designate a "Commercial Development Districts" (CDD) for water and sewer areas. A CDD cannot be established outside of water and sewer areas.
    - A CDD is currently designated in the proposed Centre Plan.
    - A CDD would have to also be designated in the Regional Plan if the area for phasing was to be expanded outside the Centre Plan.
- Under current legislation, only general tax rates can be averaged, not any special tax rates.
- Assessment declines can't be averaged

Conclusions

Small businesses face two distinct issues with commercial taxation in HRM.

1. There are pockets of assessment where taxes tend to be relatively high for small businesses relative to other taxpayers. These areas are difficult to define in such a way to only provide tax relief to small local businesses in need of tax relief, versus other businesses in the area that may be larger or have less financial need. In total, around 10% of small properties might be described as high tax relative to other HRM taxpayers.
2. Development pressures can cause sudden and unexpected tax increases on smaller properties, largely due to the value of land increasing suddenly. Cities tend to grow and develop and long-term assistance to offset development pressure may deter legitimate changes in the real estate markets. Policy changes that address predictability will provide flexibility for smaller businesses to adapt while maintaining the long-term dynamics in the property market.

Therefore, short term assistance or relief may be needed to help those businesses adjust in the longer run. The most appropriate manner in which to look at this is through the use of a three-year rolling average program with a 5% threshold.

FINANCIAL IMPLICATIONS

Possible tax structure or rate changes are revenue neutral with any lost tax revenues fully offset through higher taxes on those not eligible for any special tax rates or phasing.

Should Regional Council adopt the recommendations for a three-year rolling average program, commercial taxes would be based on the average three-year commercial tax base. To adjust for the loss in any commercial tax revenues the commercial tax rate would be adjusted upward. This change makes the proposal revenue neutral. The neutral position is achieved through some businesses receiving higher commercial taxes to offset the lost revenues from the three-year averaging. This higher commercial tax increase is spread across all businesses to reduce the impact of the increase. The three-year rolling average lessens the financial burden on businesses who incur a higher tax rate by spreading the increase across three years opposed to a large increase in the year the tax rate first increases. It should be noted that there would be no impact on residential tax revenues.

Any change to a new tax system may include additional administrative costs during and following the transition including communication, advertising, computer programming or other implementations costs. These have not yet been estimated.

RISK CONSIDERATION

There are no material fiscal risks associated with this recommendation. Total revenues will not be affected, however under three year rolling averages the distribution of who pays will transfer taxes paid from properties with high growth in value, to properties experiencing flat or low growth in assessment.

COMMUNITY ENGAGEMENT

Staff have consulted a range of business community stakeholders since 2015 and most recently in October 2018. Policy materials and staff analysis have been made available to interested business groups, Council members and policy stakeholders. Pending Regional Council direction, staff will be consulting with the business community on the implementation of tax structure changes.

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

There are alternatives Regional Council could consider including:

1. **Reducing the General Tax Rate** – This is the most effective manner of reducing taxes for all small business across the region. It is not recommended in this report because it does not alter the perceptions of unfairness within the property tax system nor does it make the tax system more predictable for business.

2. **Tax Relief to Highest Tax BIDCs -** This has the effect of reducing taxes on those specific BIDCs that have higher taxes than other BIDCs. It is not recommended because many of the firms who will benefit from it are not small businesses and it will shift higher taxes onto other businesses across the Region.

3. **Multiple or Tiered Tax Rat**es – This would apply across the region, not just to a geographic area. It would have the impact of lowering taxes on small businesses with high average taxes. It is not recommended because it increases the complexity of the tax system.

4. **Maintain the current policy** – This is not recommended as the current system leads to unpredictability for businesses. Right now, business has insufficient time to adjust its operations should there be a significant increase in their property taxes.

ATTACHMENTS

Attachment A: Details and Analysis of BID Tax Rate (Presented during 2018 workshops)
Attachment B: Details and Analysis of Centres/Corridors Tax Relief (Presented during 2018 workshops)
Attachment C: Details and Analysis of Tax Relief to Highest Taxed BIDs (Presented during 2018 workshops)
Attachment D: Details and Analysis of Five Tax Zones (Presented during 2018 workshops)
Attachment E: Details and Analysis of Multiple Tax Rates (Presented during 2018 workshops)

Attachment F:	Details and Analysis of Three-Year Rolling Average (Presented during 2018 workshops)
Attachment G:	Canmac Economics Report: An Economic Analysis of Commercial Property Tax in HRM (Presented during 2018 workshops)
Attachment H:	Macroeconomic Trends & Property Tax (Presented during 2018 workshops)
Attachment I:	Combined Letter from Business Improvement Districts (BIDs), December 20th, 2018 (Presented during 2018 workshops)
Attachment J:	Bill 52, Province of Nova Scotia (Presented during 2018 workshops)
Attachment K:	Bill 177, Province of Nova Scotia (Presented during 2018 workshops)

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Kenzie McNeil, MIB Senior Financial Consultant, 902.579.4129

Report Approved by: Original Signed

Bruce Fisher, Manager of Financial Policy & Planning, 902.490.4493

Report Approval by: Original Signed

Sarah Teal, Acting Director, Finance, Asset Management, & ICT 902. 292-1933

Attachments

Note: Attachments A through E use 2017 assessment data for modelling purposes, as this was the data used to present theoretical scenarios to the business community during the consultation period between January and October 2018.

Attachment A

Details and Analysis of BID Tax Rate

A special BID tax rate would reduce taxes payable in BIDs by a certain amount. (7.5% in the below example) Other properties would need to pay 2.5% more assuming revenue neutrality. This option essentially signals that BID areas are subject to special tax rates. The economic rationale for this option is unclear. Like most tax adjustments, there is no guarantee that property tax savings will be passed on to tenants.

BID Name	Properties	Avg Rate	Avg Rate	Change
All BID Properties	1,119	$2.853	$2.639	-7.5%
Non-BID Properties	4,257	$2.828	$2.899	2.5%
All Taxable Commercial Properties	5,376	$2.835	$2.835	0.0%

Like other geographic-based options, it targets a specific area of HRM, but its benefits are unclear, while increasing taxes on the balance of the commercial sector.

Attachment B

Details and Analysis of Centres/Corridors Tax Relief

Tax relief to Centres and Corridors as defined in formal HRM planning by-law is another form of geographic based tax relief. The rationale for this type of policy is vaguely related to the theory of aligning tax and planning policy, without having clear economic rationale or reasoning. In the below example, average taxes fall 9.4% in the defined areas, with a required tax increase of 0.6% for other properties.

Centres & Corridors	Sample Size	Avg General Tax	Tax/Sq. Ft	New Tax/Sq. Ft
Centre or Corridor Properties	626	$29,031	$3.19	$2.89
Other Commercial Properties	4,750	$69,029	$3.09	$3.11
HRM Commercial Properties	5,376	$63,831	$3.09	$3.09

Note: Regional Centre and Bedford only

Like other geographic-based options, it targets a specific area of HRM, but its benefits are unclear, while increasing taxes on the balance of the commercial sector.

Attachment C

Details and Analysis of Tax Relief to Highest Tax BIDs

Limiting tax changes to BIDs is another form of geographic-based tax relief. In this option, a threshold is set (20%), that average taxes in each BID cannot be more than 20% above the average in a given fiscal year. In theory, Spring Garden Road BID and Halifax Downtown BID would see their average taxes fall 20.7% and 2.9% respectively. These offsets are paid by other BIDs paying 4% more.

This option has the benefit of limiting tax changes to BIDs and not affecting other commercial properties. However, the same issues of benefits accruing to landlords versus tenants, lack of economic rationale and administrative complexity remain.

BID/Area	Properties	Tax/ Sq. Ft ($)	(%) Change (+/-)	Adj. Tax/ Sq. Ft ($)
Spring Garden Road	79	4.68	-17.4%	3.87
Halifax Downtown	252	3.82	2.90%	3.87
Sackville	171	3.31	4.2%	3.45
Quinpool Road	94	3.30	4.2%	3.44
Bedford Highway*	70	3.16	4.2%	3.29
Dartmouth Main Street	51	2.74	4.2%	2.86
North End Commercial	236	2.51	4.2%	2.62
Spryfield	63	2.00	4.2%	2.08
Dartmouth Downtown	173	1.88	4.2%	1.96

Attachment D

Details and Analysis of Five Zone Option

A Five Zone Option essentially divides HRM into distinct areas that are desirable for development, relative to other areas. In this option, there are five separate tax zones with different tax rates. For example, an Industrial Zone, a Big Box Zone, a High-Density Zone, an SME Zone and a Rural Zone would all be subject to different tax rates.

The main features include replacing the current commercial tax structure with five new zones:

1. **High Density Zone** - Boundary like Downtown BIDC
2. **Industrial Zone** - all industrial parks including Burnside, Ragged Lake, Woodside
3. **Big Box Zone** - City of Lakes, Bayers Lake, Bedford Commons, Dartmouth Crossing
4. **Small Medium Enterprise (SME) Zone** – other urban and suburban areas
5. **Rural Zone** – Area outside of commuter shed. (Exact Boundaries to be discussed

The SME Zone would include most of the small and medium sized businesses. It encompasses the urban and commuter shed area that is not in any of the other four zones. This means most of Halifax (outside of the high-density downtown area), Dartmouth, Sackville, Bedford, etc. The most favourable tax rates would be for the "SME Zone", which is all urban and suburban areas. Tax relief targeted to those in the SME Zone is offset by higher rates in the Big Box Zone (business parks) and flat or marginally higher rates in the other zones.

The following Chart shows how the taxes in this zone might be reconfigured. In Option A, the SME Zone's taxes fall 2.0% while the Big Box zone rises 8.0%. This creates a 10% differential. Other zones stay the same. In Option B, the SME Zone's taxes fall 2.9% while the Big Box zone rises 7.1% and other zones rise by 2.1%. This means that the SME zone is 10% lower than the Big Box Zone and 5% lower than the High Density and Industrial Zones. (The rural zone is a bit more complex as its rate is already substantially lower, would require further review)

Option A - 10% difference, Big Box Zone to SME Zone

	High Density Zone	Industrial Parks Zone	Big Box Zone	SME Zone	Rural Zone
Proposed Change	**0.0%**	**0.0%**	**8.0%**	**-2.0%**	**0.0%**
Average Gen'l Tax	$126,200	$52,400	$170,300	$29,200	$3,800
Prop. Tax Change	$0	$0	$13,580	-$590	$0

Option B - 10% difference, Big Box Zone to SME Zone; 5% difference, High Density/Industrial to SME Zone

	High Density Zone	Industrial Parks Zone	Big Box Zone	SME Zone	Rural Zone
Proposed Change	**2.1%**	**2.1%**	**7.1%**	**-2.9%**	**2.1%**
Average Gen'l Tax	$126,200	$52,400	$170,300	$29,200	$3,800
Prop. Tax Change	$2,600	$1,080	$12,030	-$860	$80

Attachment E

Details and Analysis of Multiple Tax Rates

The objective of this option is to reduce tax burden on high-tax small properties by creating a tax rate structure that gives relief to properties with an assessment of up to $2.15m.

Benefits/Considerations:

1. May lower taxes on mid-range assessment
2. Benefits more highly taxed properties
3. Does not discriminate based on location/geography.
4. Benefits accrue to property owner, not necessarily leases.
5. With appropriate design, targets properties with higher tax bills.
6. Other properties will pay more.

Using 7,500 square feet as the threshold for a "small" property, we observe which properties may be highly taxed. Square footage data is available for slightly less than 50 per cent of all commercial properties.

	Small Properties (Under 7,500 SqFt)		**Medium to Large Properties** (Over 7,500 SqFt)	
Under $1 tax per SqFt	215	14%	121	9.5%
$1 to $2 Tax per SqFt	304	20%	338	26.6%
$2 to $3 Tax per SqFt	295	20%	354	27.8%
$3 to $4 Tax per SqFt	247	17%	226	17.8%
$4 to $5 Tax per SqFt	128	9%	98	7.7%
$5 to $7.50 Tax per SqFt	154	10%	110	8.7%
Over $7.50	153	10%	24	1.9%
Sub-Total	**1,496**	**100%**	**1,271**	**100%**

Key Points:

1. 10 per cent of small properties are over $7.50 per square foot, but only 2 per cent of medium to large properties are.
2. 80 per cent have a value between $400K and $2.1m
3. Those small properties are 6 per cent of the total sample set with roughly 1/3rd of these being gas stations or automotive sales.

Potential Policy Design:

Introduce multiple tax rates:

- Lower tax rate would be 10 per cent lower for assessment between $400K and $1.4 million.
- Tax benefit is phased out by $2.15m.

Example:

	Property Worth $500,000	Property Worth $1,400,000	Property Worth $2,150,000	Property Worth $3,000,000
Current System				
Assessment	500,000	1,400,000	2,150,000	3,000,000
Tax Rate	2.895%	2.895%	2.895%	2.895%
Taxes	**14,475**	**40,530**	**62,243**	**86,850**
Possible System				
Taxes	**14,347**	**38,062**	**62,220**	**87,840**
Savings/Cost	-128	-2,468	-23	990
Percent	-0.9%	-6.1%	0.0%	1.1%

Potential Distributional Impacts:

	Taxes Increase	**Taxes Decrease**
Small Properties (<7,500 sqft)	70% increase by avg of 1.3%	30% decrease by avg of 2.7%, but **70% of high tax properties decline avg 3.2%.**
Medium and Large Properties	53% increase by 2.1%	47% decline by avg of 2.9%.

Attachment F

Details and Analysis of Three-Year Rolling Average

This option is not an explicit form of tax-relief, but of tax deferral for those properties increasing at the quickest rates. The objective with this policy is to smooth fixed costs for properties, and to increase predictability to guard against sudden spikes. The business community has endorsed this policy as helpful for business planning purposes.

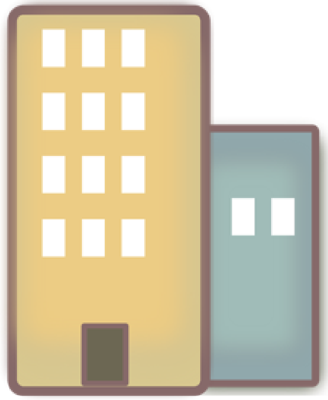
Benefits/Considerations:

1. Improves predictability for those properties increasing quickly.
2. Not a form of permanent tax-relief.
3. Is not a long-term solution to those that believe assessment methodology is flawed or poorly designed.
4. Properties must be increasing in value (generally) over the three-year period for the program to take effect, i.e. to be “eligible.”
5. An adjusted commercial assessment role to accompany the market value roll released every December (HRM-specific) would need to be produced concurrently by PVSC.
6. PVSC’s assessment process is not changing, however, staff time required to produce an HRM-Commercial tax roll that adjusts assessment as per bill 177 (approved) with amendments to the Municipal Government Act (MGA) will likely require an increase in HRM’s payment to PVSC annually.
7. PVSC/HRM may wish to engage in an education program for the commercial sector, explaining how their assessed value is reached and how the methodology has changed.
8. May help with predictability, ultimately land prices are driven by location.
9. Equity considerations (income distribution) cannot be remedied through a property tax (Canmac Economics, 2018)
10. Only “helps” small business to the extent their assessment is spiking. May also help office towers and corporates in the future.

Potential Policy Design:

1. A 3-year rolling average moderates the growth rate of properties, allowing for improved certainty in business planning.
2. Suppose a commercial property has an assessed value of $100,000 in two consecutive years. In third year, it rises 15% to $115,000.
3. Status Quo: Its assessed value for taxation rises 15% to $115,000 in year 3.
4. Averaging: Its new taxable assessment will not be $115,000 as under the current structure but will be averaged to $105,000.

Example



As long as assessment is growing, current year assessment is the average of the two previous plus the current year

Example 1	PY-1	PY	Year 1	Year 2	Year 3	3-Year Avg Assessment
Before Phase-In	100,000	100,000	145,000	145,000	145,000	145,000
After Phase-In	100,000	100,000	**115,000**	130,000	145,000	130,000
Increase			**15%**			

HALIFAX

Attachment G

Canmac Economics: "An Economic Analysis of Commercial Property Tax in HRM"

An Economic Analysis of the Halifax Regional Municipality

Commercial Tax

Prepared by

Canmac Economics Limited

December 2017

An Economic Analysis of the Halifax Regional Municipality

Commercial Tax

Canmac would like to acknowledge the helpful assistance and cooperation of HRM Staff and Bruce Fisher, Manager of Financial Policy and Planning and Kenzie McNeil, Senior Financial Consultant,

Canmac Project Team

Dr. Michael Foster

Dr. Jim McNiven

Mr. John Mersereau

Ms. Cynthia Currie

Contents

Executive Summary

Selecting what is the best commercial tax option for paying the commercial tax bill depends on what you want to accomplish with the commercial tax system. There are three main objectives in tax policy:

- Equity – is the tax income distribution impact fair?
- Benefits – those tax payers who get the benefits pay the tax.
- Economic Competitiveness – is the city's economic development strategy achieved through the commercial tax system?

The report concludes with the following results:

1. Using the commercial property tax to achieve equity – adjusting the income received to provide 'fairer' distribution of income is not practical for commercial taxes.
2. Basing the property tax paid by commercial establishments on the benefits received from services provided is the most attractive basis for setting property taxes.
3. The commercial tax rate is a weak policy tool for enhancing a region's economic competitiveness. Studies elsewhere and metrics developed in this study for HRM show little change in economic impact in providing economic incentives via the commercial property tax.
4. Using the commercial property tax to achieve economic competitiveness as a policy must be designed to be selective and incremental. Some examples where a lower tax has the potential to create economic impact benefits are:
    a. Support for new immigrants in start-up businesses.
    b. Support for start-up businesses in targeted industries such as the ocean industry sector, clean technology.
    c. Existing commercial establishments on the fringe of the Central Business District likely have a higher distortion in taxes paid relative to benefits received than other areas.

Chapter 1 - Introduction

1.1 Study Objective

The purpose of this report is to provide an economic assessment of the Halifax Regional Municipality's commercial tax system. The focus of the analysis is to assess the economic impact of the commercial tax system on firms across the commercial sector. The economic impact assesses the tax incidence and tax burden on firms.

Once the impact assessment has been completed, the next step is to develop policy implications and recommendations.

Halifax Finance staff have previously undertaken policy research in this area and have worked with community stakeholders to understand the concerns of the business community, through consultation with business owners and business improvement districts. As determined by Regional Council, any potential change to the commercial tax system should align with the Regional (Centre) Plan and Regional Economic Strategy.

1.2 Methodology Overview

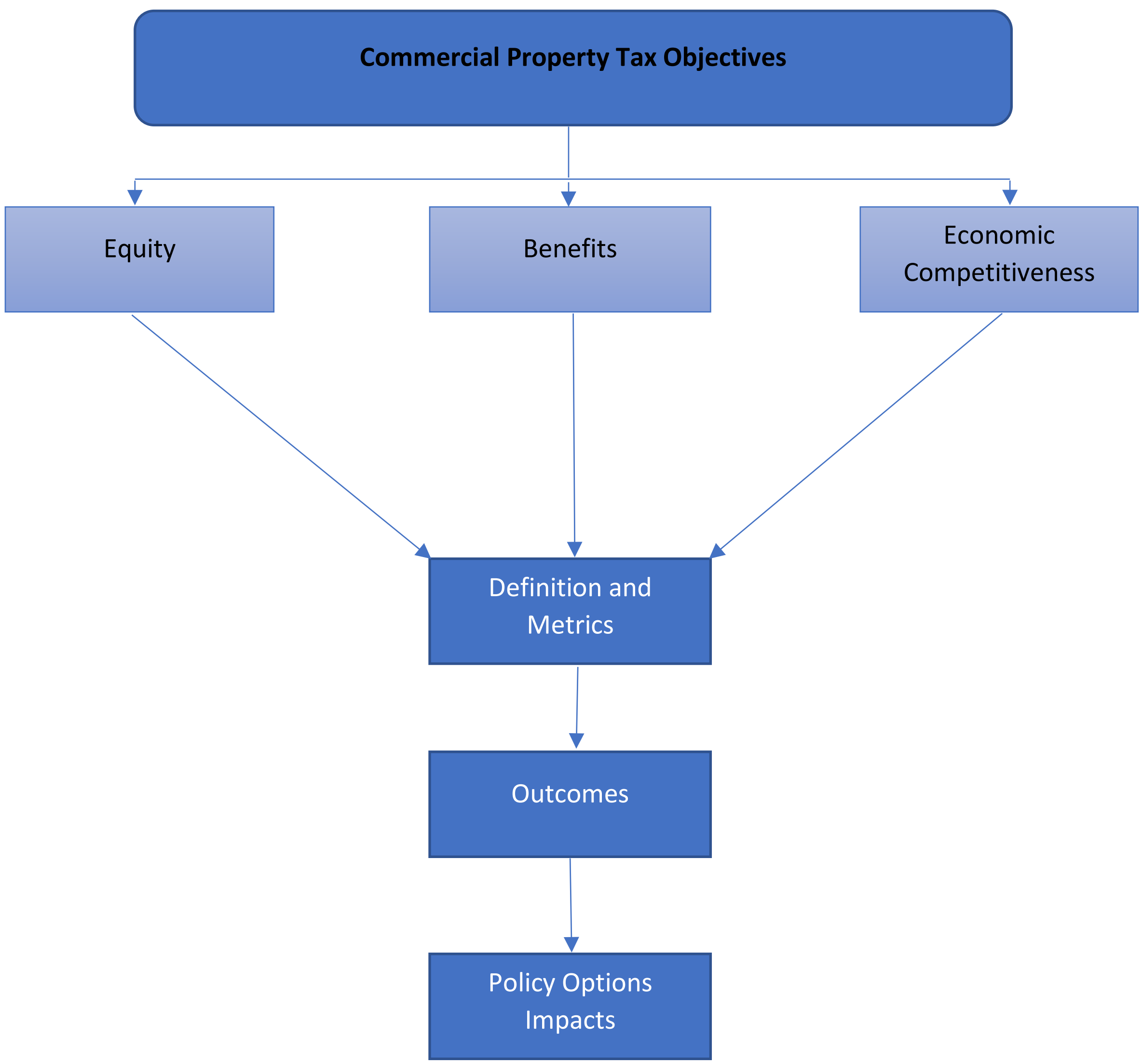
Canmac's approach to developing the economic impact assessments and policy implications is comprised of three major tasks as follows:

- A framework model.
- Tax impact analytics.
- Review of experience elsewhere.

1.3 Framework Model

A framework model is the first step in a successful evaluation process. We set out the research framework in Figure 1.1. Figure 1.1 shows the most important first step is to define what one wants to achieve with HRM's commercial property tax. This is then followed by evaluation of each objective with respect to its outcomes and the policy options available.

Figure 1.1
HRM Commercial Tax Options
Framework Model



1.4 Report Outline

The report is comprised of four chapters including the present one. Chapter 2 discusses the objectives of HRM's commercial tax system. Chapter 3 discusses the economic impact and importance of the commercial tax. Chapter 4 provides conclusions.

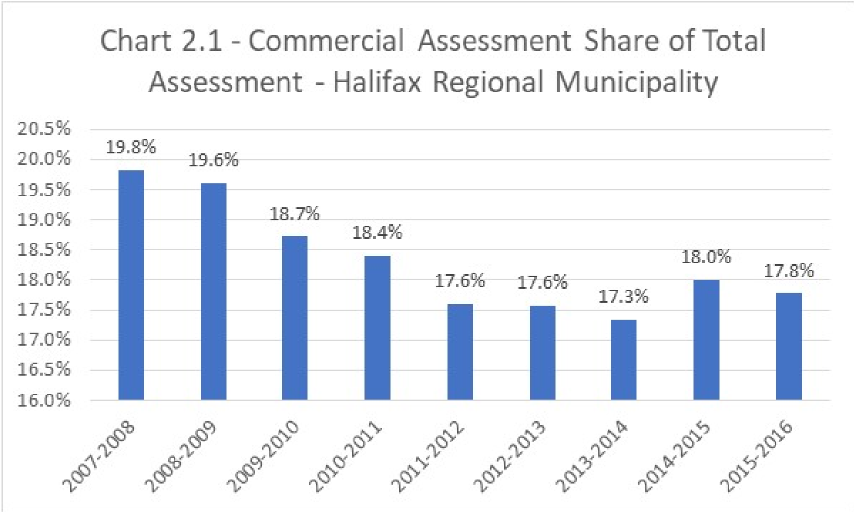
Chapter 2 - Objectives

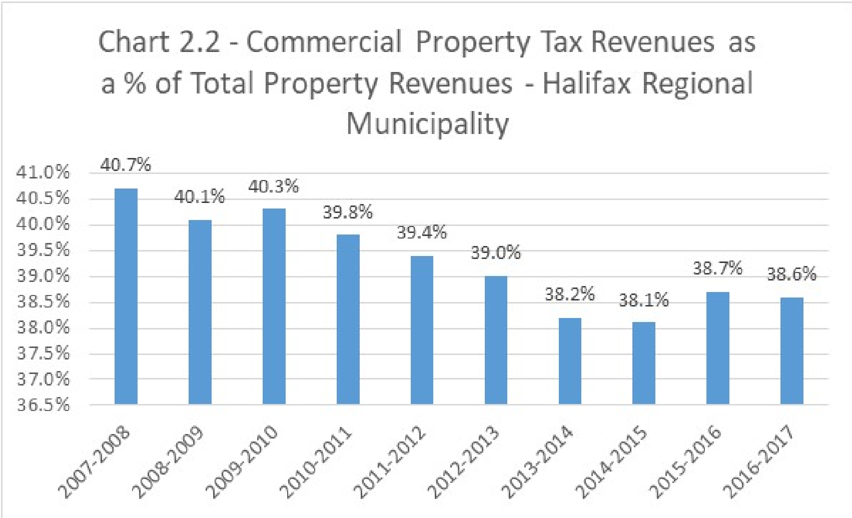
2.1 Introduction

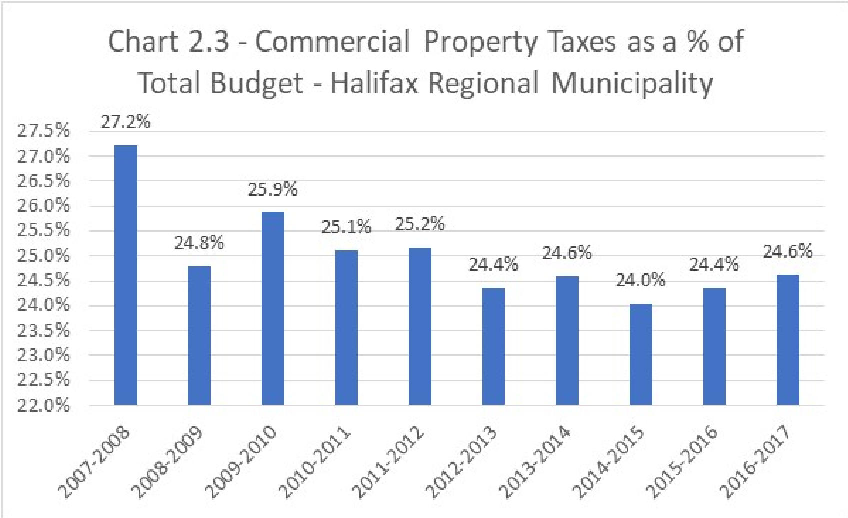
This chapter discusses the most appropriate tax objectives for setting HRM's commercial tax system. Clarity on the intended purpose of the commercial tax is important as it sets the framework for determining the most beneficial specific tax options to use. Section 2.2 discusses the general importance of commercial taxation to HRM. Section 2.3 reviews the usefulness of the HRM commercial tax system for attaining HRM taxation objectives. Section 2.4 concludes the discussion.

2.2 HRM Commercial Tax Importance

HRM's commercial tax system is an important component of HRM's financial structure. Charts 2.1 to 2.3 illustrate this importance. As shown in Chart 2.1, commercial assessment represents 17.8% of HRM's total assessment. The share has been relatively constant over recent years and trended down over the high of 19.8% in 2007/2008. Commercial taxation is an important generator of overall tax revenues. While it only represents 17.9% of total assessment, it provides 48.2% of total property revenues. Over the historic period, 2007/2008 to 2016/2017, the commercial tax system's contribution has remained fairly consistent from a high of 51.0% in 2009/2010 to a low of 47.2% in 2008/2009. The commercial tax system has also remained a significant contributor to HRM's total budget from a high of 27.2% in 2007/2008 to a low of 24.4% in 2012/2013.







Source: Computed by Canmac Economics Ltd.

2.3 Commercial Tax Objectives Evaluation

As noted in Chapter 1, there are three main objectives for taxation:

- Equity Objectives
- Benefit Objectives
- Economic Competitiveness Objectives

Equity

Equity objectives are concerned with issues of fairness between tax payers. Fairness is a subjective assessment with different stakeholders having different views. The general principle is that equals should be treated equally and unequals should be treated unequally. Beyond the general statement, the actual specifics depend on political decision-making.

It is generally agreed that on equity grounds the wealthy should pay more than those less well off. This philosophy is seen in the personal income tax system.

Whether a given tax system has an equity dimension is tested by the proportion of the tax. A tax is said to be proportional if the ratio of taxes paid to income is consistent regardless of income. A tax is progressive if the ratio of taxes paid increase with income and is regressive if the ratio of taxes paid decreases with income.

Benefits

The benefits taxation principle states that the person who receives the benefits pays the cost either through taxation or user fees. The benefits principle links the benefit to the receiver of the benefit. This enables the user to more effectively decide on the desired level of service given the cost of resources needed to provide the service.

Economic Competitiveness

HRM is a stakeholder in the promotion of the economic welfare of its citizens. This activity includes ensuring that its taxation system promotes economic welfare and that it promotes the economic development of the region.

The ideal tax from an economic perspective is a flat tax – a tax that is the same for every household. The rationale behind this assertion is that given we have a perfectly competitive market system society is at an optimal economic welfare point. Then an optimal tax is one that minimizes the distortion from the prices, quantities demand and quantities supplied under this optimal welfare point. A fixed lump sum flat tax is the tax that achieves this as it does not impact on the behavior of economic agents maximizing their economic welfare. Accordingly, the guiding principle under economic competitiveness is to minimize the distortion given that a flat tax is not feasible. Of course, a flat tax lacks any equity considerations or benefits approach.

Empirical evidence on the progressiveness or otherwise of the residential property tax is mixed. The traditional view holds that the property tax is regressive in that property tax is passed on by landlords to renters and renters are poorer that landlords and housing consumption is a greater component of lower income household budgets. The capital view of the property tax says property is a capital investment and competes for return with other capital investment. If the investment return in one jurisdiction is lower than in another, investment will move out until investment returns are equated. Under this view, the property tax is progressive.

Assessing the property tax progressiveness on commercial property is even more problematic. Renters of commercial property view the property tax as a tax on a business input. The income of business owners relative to the property tax is obviously difficult to assess. A general observation may conclude that small business may incur a proportionally larger share of the commercial property tax, but this is not obvious.

Achieving desirable equity goals using the commercial property tax should be discouraged. The commercial property tax system is just too fragmented to achieve equity targets. Equity is ultimately defined as the level of income received by economic agents. There is not a clear correlation between income and size of firm. While one could generally agree that as firm size increases owners and senior executives tend to get paid more but this excludes many workers that have jobs at larger firms. A proportional increase in commercial tax rates for larger firms would likely impact negatively on all employees at the larger firm. It would seem that the most effective way to achieve equity targets is through the income tax system directly rather than the back door of a commercial property tax.

There is a strong benefits component to the property tax as the municipality provides property services – fire protection, police protection, water and sewer, road construction and maintenance etc. Given the link between municipal urban services and taxes there is a strong case for the commercial tax system to be based on she who gets the benefits pays the cost (taxes) of the benefits received. The optimal design given a benefits principle is discussed in Chapter 3.

2.4 Conclusions

The primary focus of the HRM commercial tax system should be based on the benefits principle. Under this principle, the yardstick for evaluating various specific tax options is straightforward. The 'fairness' of the system is determined by the cost relative to the service received. The system is unfair if one taxpayer pays more than another for the same level of service.

Chapter 3 – Economic Benefits Impact

3.1 Introduction

The previous chapter concluded that an evaluation of commercial tax options should be focused on the benefits principle of taxation. This implies comparing the benefits received from HRM services compared to the cost of services for various tax payers. Section 3.2 reviews the commercial tax system relative to the residential tax system. Section 3.3 examines the economic impact of the tax system within the commercial sector. Section 3.4 provides a discussion of benefits tax design given HRM's new tax options.

3.2 Commercial Tax Versus Residential Tax

If one accepts the benefits principle as the appropriate basis for property taxation, then there are significant distortions in the application of the property tax. Perhaps the most important distortion for business is that businesses pay almost twice as much as the residential sector and receive less in services.

Compared to households, commercial businesses pay more tax and receive less benefits. Chart 3.1 shows the general urban tax rate per $100 of assessment for residences and commercial. As shown in Chart 3.1, the commercial rate is larger than the residential rate.

Table 3.1 shows the HRM expenditures by service type from an HRM study (Settlement Pattern and Form with Service Cost Analysis 2005) on a percentage basis. Although the data is a little dated it provides a first approximation for the current situation. A review of the expenditure items results in the conclusion that the residential sector receives a disproportionately higher amount of services. Notably, residences receive garbage collection service from the municipality whereas businesses do not. Also, transit, parks/recreation and libraries are disproportionately used by the residential sector. The proportional share of the other services would require a more in-depth analysis beyond the scope of the present research. However, one can conclude that commercial units relative to benefit received pay a disproportionately higher tax bill.

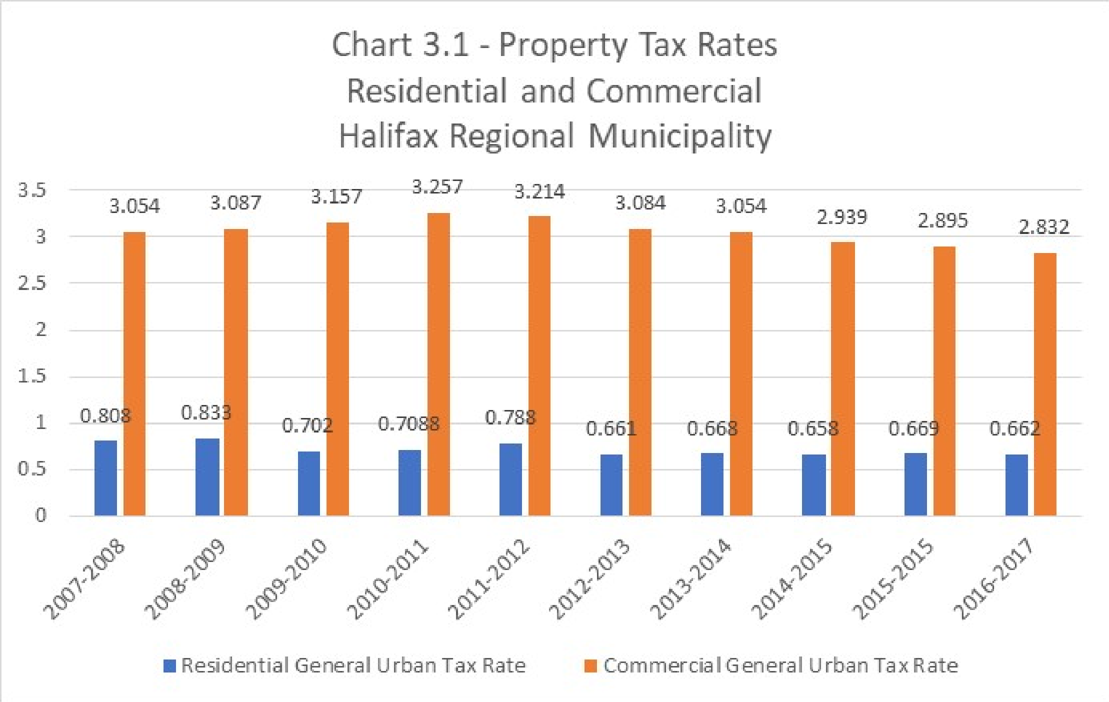


Table 3.1 HRM Expenditures – By Service (Percentage)	
Expenditure	Percentage
Roads	11%
Transit	10%
Water	5%
Wastewater/Storm water	8%
Solid Waste	9%
Parks/Recreation	5%
Education/Provincial	14%
Libraries	3%
Police	12%
Fire	10%
Economic/Cultural	3%
Service/Governance	10%
Total	100%
Source: Settlement Pattern and Form with Service Cost Analysis 2005)	

3.3 Commercial Tax Impacts

A quantitative assessment of the economic impact of the commercial taxation provides guidance on the appropriate tax design by focusing on how economic agents will likely react to changes in the tax rate or assessment basis. The overall result that we derive is that changes in the tax design will not have a significant impact on most economic agents, decisions on location changes, expansion, etc.

Impact Metrics

Business taxes as a percent of sales measure how important a change in commercial taxes are to the cost of production and ultimately the price and demand for the firm's product. For example, a 50% decrease in the property tax would decrease the cost of production by the portion that taxes are of total production costs and if the decrease is passed on to consumers it would indicate the impact on sales given the price elasticity.

Statistics Canada provides data on total operating expenses disaggregated by major cost item for a number of establishments. The data is for Canada but to a first order approximation would be representative of HRM firms. Canmac also interviewed several (8) small business establishments in the HRM. The results were consistent with the national data. For example, we found the fast food operations had property taxes at 1.48% for the most recent fiscal year. Canmac also interviewed several key informants. Key informants concurred that the HRM data is consistent with the national data. Table 3.2 shows the cost item business taxes, licenses and permits as a percent of total operating costs for a number of commercial establishments. The cost item would contain property taxes paid. It is clear from Table 3.2, that the property tax burden – defined as the business taxes, etc., as a portion of total operating costs is quite low.

In 2015, it ranged from .2 percent to 3.9 percent. Clearly a decrease in the commercial property tax by say 50% would not have a significant impact on a firm's operation.

Table 3.2 Business Taxes, Licenses and Permits as a % of Total Operating Expense Canada			
Industry	**2013**	**2014**	**2015**
Accommodation services	3.9	3.7	3.9
Accounting services	0.6	0.9	0.8
Consulting services	0.4	0.4	0.5
Consumer goods rental	0.6	0.6	0.6
Engineering services	0.3	0.3	0.2
Real estate agents, brokers and appraisers and other real estate activities	2.9	2.7	2.8
Travel arrangement services	0.5	0.6	0.6
Source: Statistics Canada			

A second indicator of the tax burden is the marginal effective rate (METR). The marginal effective tax rate is a measure of the investment cost for a new business in a specific jurisdiction. More specifically, the METR measures the percentage increase in the rate of return an investor needs to cover the cost of taxes. For example, if the prevailing acceptable after-tax rate of return is 6 percent and if investors in Halifax need a before tax rate of return of 8 percent to pay taxes and keep the after-tax rate of return at 6 percent the METR would be (8-6)/6 = .33 or 33.3 percent.

Several organizations compute METR's. Notably the University of Calgary – Public Policy School and the C.D. Howe Institute. The C.D. Howe Institute provides METR's that include the business property tax. Table 3.3 sets out the METR for Halifax compared to the national average across the provincial largest city averages.

Table 3.3 Marginal Effective Tax Rates Halifax vs National Average				
	Halifax		National Average	
Year	**Total**	**Municipal Business Property Tax**	**Total**	**Municipal Business Property Tax**
2013	73.3	52.2	56.2	30.2
2014	67.4	46.8	55.5	29.5
2015	67.7	46.9	54.4	27.9
2016	67.9	46.8	53.6	26.9
2017	72.8	51.2	54.3	27.1
Source: CD Howe Institute – Business Tax Burdens in Canada's Major Cities: The 2017 Report Card				

As shown in Table 3.3, the tax burden on business in Halifax is above the national average. The total rate fell significantly from the 2013 high of 73.3 over the 2014-2016 period but increased significantly in 2017. The municipal business property tax portion of the METR is the largest component. Its increase in 2017 accounts for the largest component of the METR increase in 2017.

Marginal effective tax rates are only <u>indicators</u> of the tax burden of government at various locations. One should view the results as a guide to the actual situation faced by the investor not as a definitive statement. For example, the METR for business property tax is calculated as total business taxes as percent of commercial assessment. If say, Toronto has a higher assessment for the same building as HRM and taxes are the same then Toronto would have a lower METR, i.e. burden.

Experience Elsewhere

Property tax as a revenue source for municipalities is pervasive. Accordingly, there are a number of studies that evaluate the effectiveness of the property tax as an incentive for economic development and competitiveness. This section examines experience elsewhere in using the property tax as a mechanism for achieving economic development.

Study*: City of Saskatoon, Business Property Taxation by Cities. What we Know, What We Don't, and What We Should*. A Discussion Paper. Prepared by Mike Jordan, Director of Government Relations, March 6, 2017

"In section 4, the paper turns to focus more exclusively on business property taxation. In this section the objective is to determine the nature and extent to which the business property taxes help or hinder competitiveness. The section reveals:

- On the basis of benefit received, the empirical evidence in Canada suggests that the non-residential sector is over taxed relative to the residential sector. This over-taxation is potentially harmful if it reduces the level of economic activity.
- Studies suggest that the impact of property taxes on business competitiveness depends on a number of factors – the nature of the business decision (investment in new facilities, on-going operations, etc.), the business in question, plus other factors. More specifically, property taxes on business properties are not a concern unless the firm is in financial distress and the tax is a large component of its fixed costs.
- The literature, almost all of it based on U.S. studies, suggests that property tax differentials are relatively unimportant in inter-municipal or inter-regional location decisions but do play a role in intra-municipal or intra-reginal location decisions. Two Canadian studies on tax competition find no evidence of harmful competition for capital and that neighboring jurisdictions show more similarity in their tax policies than non-neighboring jurisdictions."

Study: The Reform of Business Property Tax in Ontario: An Evaluation. Prepared by Michel Smart, Department of Economics, University of Toronto, 2012.

“The quantitative analysis in this paper goes some way towards a fuller understanding of the economic effects of the local business property tax, and a fuller evaluation of the effects of the reform in Ontario. The analysis investigates the links between business location and employment decisions and property taxes. As well as illustrating the effects of the provincial reform, the approach in this paper permits us to learn more about the tax responsiveness of business location more generally, because it exploits changes in property taxes induced by provincial policy since 2001. These changes are separate from other factors driving “voluntary” local tax changes that may be correlated with unobservable determinants of local economic activity, which would otherwise lead to biased estimates of tax responsiveness.

In the preferred empirical specification, the estimate of municipal property taxes on business location is statistically significant, but economically small. According to my estimates, a 40 percent tax rate reduction by the average municipality would cause an increase in the number of business establishments locating there of about 10 percent. On the other hand, a 40 percent tax rate reduction by the municipality’s closest neighbors would cause an offsetting decrease in business establishments of about 7 percent. Similar results are obtained for the sensitivity to local tax differentials of both large employers and total industry employment in the municipality.

These results have strong implications for the standard economic theories of the property tax. Under the canonical “capital tax view” of the property tax, businesses should be highly mobile across local boundaries in response to tax differentials. The estimates reported here instead suggest that businesses are relatively immobile in response to changes in local tax differentials, even over a period of several years. More elaborate theories suggest a number of reasons why this may be the case. Moving is costly, and the full effects of the tax reform may not be realized until much later, after the natural process of exit and entry causes business activity to shift fully in response to the tax reform. As well, the low degree of observed mobility may reflect the capitalization of local tax differentials into local land price differentials, or into wages at the municipal and regional level. In this sense, my results are more consistent with an extended “benefit tax view” than the “capital tax view” of property taxation.

In more practical terms, the results allow us to draw some conclusions about the desirability of the Ontario reforms. The small estimated elasticities of business location to tax differentials imply that the gains in productivity from greater tax harmonization are comparatively small. On the other hand, while the revenue cost of the reform was comparatively large, the revenue forgone does not represent a true economic cost to the residents of the cities experiencing tax reductions. Rather, it is a transfer from government to the private sector, that may increase the net incomes of landowners, workers, or business owners.

Assessing the effects of business tax reductions on economic welfare requires further understanding of the economic incidence of the tax. If business revenue forgone is offset by increases in land values, wages, or employment in cities, then the true loss in city incomes and potential government revenues is much smaller, and perhaps even negative."

Study: The Effective Use of Property Tax Incentives for Economic Development. Prepared by Daphne A. Kenyon, Adam J. Langley, and Bethany P. Paquin, Lincoln Institute of Land Policy.

"Every state allows the use of property-tax incentives for business. Within New England, every state but New Hampshire has a stand-alone property tax abatement program, every state but Vermont has enterprise zones, and all six states allow tax-increment financing.[6] Ineffective incentives reward companies that would have chosen the same location without tax breaks, while increasing taxes for homeowners and reducing spending on police, education, and other vital public services. Given the need to spur economic growth without compromising localities' fiscal health, policymakers should consider strategies to improve the effectiveness of property- tax incentives for economic development. Our research suggests five approaches."

Study: Rethinking Property Tax Incentives for Business. Prepared by Daphne A. Kenyon, Adam J. Langley, and Bethany P. Paquin, Lincoln Institute of Land Policy.

"This report reviews five types of property tax incentives and examines their characteristics, costs, and effectiveness.

- The best evidence on property tax abatement programs indicates they are effective initially for the first jurisdictions that use such incentives, but once they proliferate across a metropolitan area they no longer promote economic growth.

• Evidence on the impact of tax increment finance on economic activity is more mixed, but this mechanism may be overused and finance less beneficial projects when one local government is able to divert revenue from another local government without its approval, such as a city diverting a school district's revenue.

• Enterprise zones, which typically include property tax incentives as part of a larger incentive package and are usually targeted to distressed areas, have limited effectiveness.

• Very little information is available regarding either firm-specific property tax incentives or property tax exemptions in connection with issuance of industrial development bonds.

Despite a generally poor record in promoting economic development, incentives can be helpful in some cases. When these incentives attract new businesses to a jurisdiction they can increase income or employment, expand the tax base, and revitalize distressed urban areas. In a best-case scenario, attracting a large facility can increase worker productivity and draw related firms to the area, creating a positive feedback loop. This report offers recommendations to improve the odds of achieving these economic development goals.

Alternatives to tax incentives should be considered by policy makers seeking more cost-effective approaches, such as customized job training, labor market intermediaries, and business support services. State and local governments also can pursue a policy of broad-based taxes with low tax rates or adopt split-rate property taxation with lower taxes on buildings than land.

State policy makers are in a good position to increase the effectiveness of property tax incentives since they control how local governments use them. For example, states can restrict the use of incentives to certain geographic areas or certain types of facilities; publish information on the use of property tax incentives; conduct studies on their effectiveness; and reduce destructive local tax competition by not reimbursing local governments for revenue they forgo when they award property tax incentives.

Local government officials can make wiser use of property tax incentives for business and avoid such incentives when their costs exceed their benefits. Localities should set clear criteria for the types of projects eligible for incentives; limit tax breaks to mobile facilities that export goods or services out of the region; involve tax administrators and other stakeholders in decisions to grant incentives; cooperate on economic development with other jurisdictions in the area; and be clear from the outset that not all businesses that ask for an incentive will receive one."

Office Market Impact

Canmac has estimated the economic impact on the Halifax Office Market given a 50% reduction in the commercial property tax rate using Canmac's proprietary econometric model of the Halifax economy.

The Halifax office market in 2016 had an estimated total inventory of 12,562,979 sq. ft. up from 7,883,704 sq. ft. in 2002. In 2016, the vacancy rate was 22.4% and the gross rental rate was $26.47. The gross rental rate was comprised of $12.63 for taxes and operating costs and $13.64 as the net rental rate.

First consider the suppliers of Halifax office space. The supply of office space is an investment decision. We illustrate the supply situation under two cases. Case 1 is the current situation. Case 2 is the current situation with a decrease in the property tax by 50%.

Case 1

Case 1, under the current situation, the office supplier earns a gross rent per sq. ft. of $26.47 and has operating expenses including taxes of $12.63/sq. ft. We assume a construction cost of $150/sq. ft.

We approximate the investor return using the formula /sq. ft.

$$PV = \frac{R-C}{r} \quad PV = \frac{R-C}{r}$$

where PV is the present value of constructing a sq. ft. of office space. For illustrative purposes we assume $150/sq. ft. This is the market value.

R is gross rent.

C is operating costs.

r is the required investor return.

We can solve for r as follows:

$$r = \frac{R-C}{PV} \qquad r = \frac{R-C}{PV}$$
$$= .0923 \text{ or } 9.23\% = .0923 \text{ or } 9.23\%$$

Case 2

Under Case 2, the investor gets an increase in return as a result of a 50% decrease in the commercial tax.

Given a 50% reduction in the property tax using \$3.32/\$100 assessment we find this implies a reduction of \$2.49/sq. ft. This translates into an investor return of

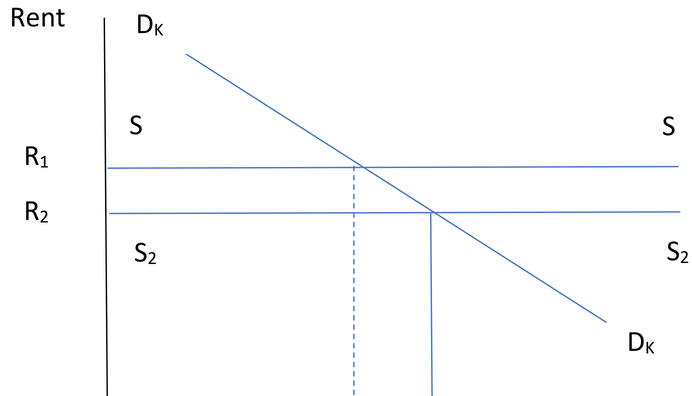
$$r = \frac{26.47 - 10.14}{150} \quad r = \frac{26.47 - 10.14}{150}$$
$$= .108 \text{ or } 10.8\% \quad = .108 \text{ or } 10.8\%$$

Now if investors will accept 9.23% and earn 10.8%, new investors will enter the market and increase the supply of office space.

The overall final market solution to the decrease in rents is determined by the demand and supply of HRM office space and is illustrated in Figure 3.1. Office suppliers come on to the market by lowering rents given the desired return. Commercial businesses desiring office space increase demand as rents fall.

Simulations with Canmac's econometric model of the Halifax economy reveal a modest increase in office space as a result of a drop in gross rents by the 50% postulated drop in commercial property tax. The predicted increase in office space is 300,299 sq. ft. or 2.3%. Hence significant changes in the property tax will not provide a significant increase in office construction.

Figure 3.1: Office Space Market



3.4 HRM Commercial Tax Design

This section of the report examines in a more in-depth manner the design of the commercial tax system relative to the benefits principle. We include in the benefits principle the provision of economic development and competitiveness as a benefit.

The existing HRM tax system applies a tax rate (which has some area differentiation) to the market value of a given property. Recent changes in the legislation has given HRM more flexibility in setting tax rates. The Minister of Municipal Affairs introduced Bill 177 and Bill 52, Acts to Amend Chapter 39 of the Acts of 2008, the Halifax Regional Municipality Charter. While Bill 177 granted powers for specific commercial properties, Bill 52 granted more substantial and general commercial taxation powers. By November 10, 2016, both bills had undergone third reading and received royal assent into law.

When Bill 52 passed, it granted the municipality the ability to implement several new tax powers. Now the municipality can charge taxes based on:

- Different rate systems for designated geographic areas (regional rates).
- A square foot or square metre basis for either the size of the building (size of structure) or footprint of the property (size of property).
- The amount of property adjacent to a roadway (frontage size).
- A set amount per property (maximum charge) or different rates on property values exceeding a base amount (graduating rates).

The current HRM tax system correlates well with a benefits approach to taxation. The tax system is based on the market value of a property and the market value of a property decreases as the benefits from the property's location decreases. The market value of a property reflects the highest and best use of the land and building in a competitive market. If one accepts the benefits approach to commercial taxation, then the market value of a property reflects in part the user benefits received from the location. Market values tend to be higher at the city core because the location is more valuable to office buildings, condos etc. that outbid other potential users such as manufacturing who then move away from the downtown core. Restaurants are willing to pay more for a downtown location since there is a greater density of customers. The most accessible location in the HRM is the CBD and hence commercial firms that benefit most are willing to pay more.

Market forces are the underlying dynamic that creates a strong, competitive city by allowing those enterprises that value the location the most to be able to bid for the location hence ensuring highest and best use. The market system provides an automatic adjustment to equate the benefits of a location with its cost. For illustration of this consider a city with 100% employment in the CBD and with household commuters located throughout the city. Given the transportation cost for a given location *i* to location *j* a mile closer to the city CBD, then in market equilibrium the rent at location *i* will equal the rent at location *j* less the cost of transportation from *i* to *j*. The market value is automatically adjusted to reflect the value of location *i* versus location *j*. More generally, each location in the city has a set of benefits (close to libraries, police stations, fire stations, work, etc.). Market participants relocate increasing market value in areas of high value and decreasing rents in areas of low value. In the provision of municipal services costs are lower the higher the density and higher the further the location is away from the service. In like manner, benefits are lower the further one is away from the service. Market participants through their location decisions enable the value of a location to equate to the cost of the location.

The current tax system which has as its base a market assessment value provides for an automatic adjustment of benefits and costs for municipal services. Of course, this adjustment is imperfect because we have an imperfect understanding of the benefits and costs of various locations throughout the HRM. The main policy implication at this point in time is that the new tax powers provided to the HRM allow for the potential to make these adjustments to reflect more accurately the true incremental costs of services and benefits received at different areas of the HRM. An examination of these tax powers to achieve an improved level of service to cost ratio are as follows:

1. Different rate systems for designated geographic areas (regional rates).
2. A set amount per property (maximum charge) or different rates on property values exceeding base amount (graduating rates).

3. The amount of property adjacent to a roadway (frontage size).
4. A square foot or square metre basis for either the size of the building (size of structure) or footprint of the property (size of property).

Taxation power 1 is the most flexible and most responsive to user benefits/costs.

Externality Exceptions

There are two notable exceptions to the ability of the market to give the right price signals on matching service levels.

CBD Fringe

Businesses located on the periphery of the CBD likely have higher assessment values than would be warranted from a benefits approach. This arises from having land values assessed based on future use of the property. Land value sales on the periphery of the CBD reflect speculation on the future uses of the area as the CBD grows not on the current businesses. Hence one would expect that existing businesses that will not be 'highest and best use' in the future are paying a higher tax bill than current access to services would dictate.

Economic Development

Our research has shown the economic impact on the typical business is small. However, exceptions could be made if they enhance the overall economic development efforts of HRM. When firms are at the early start-up phase, the fixed cost of a commercial tax bill can weigh more heavily on the bottom line than the average firms. Using the new tax rules to provide incentives for critical components of the economic development strategy would have merit. Examples include:

1. New small start-ups for key industries – Ocean Sector, Clean Technology. Appendix B provides a description of the Centre for Ocean Ventures & Entrepreneurship project as an example of the type of project HRM could consider.

2. New small business start-up for recent immigrants. Appendix B provides a review of HRM immigration and the potential for an incubator mall focused on immigration.

Chapter 4 – Summary and Conclusions

Selecting what is the best commercial tax option depends on what you want to accomplish with the commercial tax. There are three main principles to follow:

- Equity
- Benefits
- Economic Competitiveness

The report concludes with the following results:

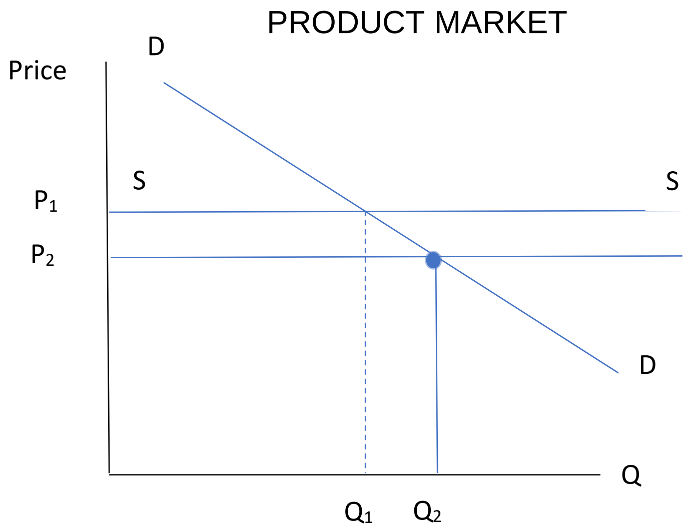
1. Using the commercial property tax to achieve equity – adjusting the income received to provide 'fairer' distribution of income is not practical for commercial taxes.
2. Basing the property tax paid by commercial establishments on the benefits received from services provided is the most attractive basis for setting property taxes.
3. The commercial tax rate is a weak policy tool for enhancing a region's economic competitiveness. Studies elsewhere and metrics developed in this study for HRM show little change in economic impact in providing economic incentives via the commercial property tax.
4. Using the commercial property tax to achieve economic competitiveness as a policy must be designed to be selective and incremental. Some examples where a lower tax has the potential to create economic impact benefits are:
    a. Support for new immigrants in start-up businesses.
    b. Support for start-up businesses in targeted industries such as the ocean industry sector, clean technology.
5. Existing commercial establishments on the fringe of the CBD likely have a higher distortion in taxes paid relative to benefits received.

Appendix A – Economic Impact Commercial Property Tax

The report explained the economic impact of property taxes from a single market approach. This appendix illustrates the general equilibrium market approach required if tax changes are significant enough to impact selling prices.

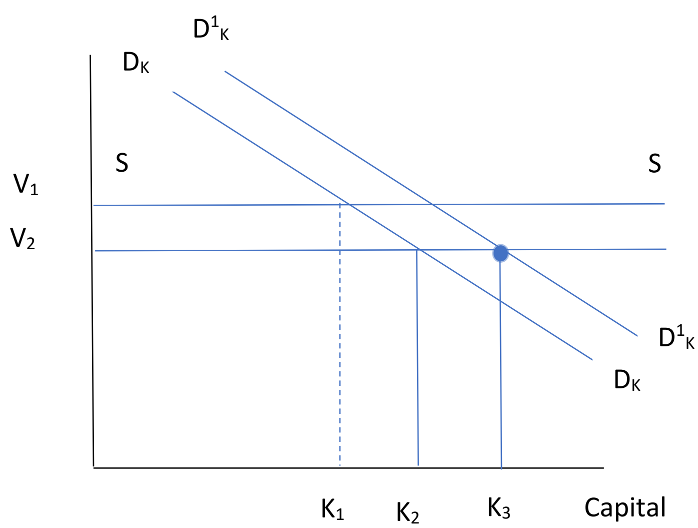
The commercial property tax is a tax on a businesses' capital input. We use a partial equilibrium analysis to show the impact on consumers and producers of the businesses' output and prices.

Business owners are small relative to size of market so take price as given. Market will supply all that is required at current price P. Consumers demand depends on price (as well as income, etc.) In market equilibrium business sales are Q_1 at price P_1.

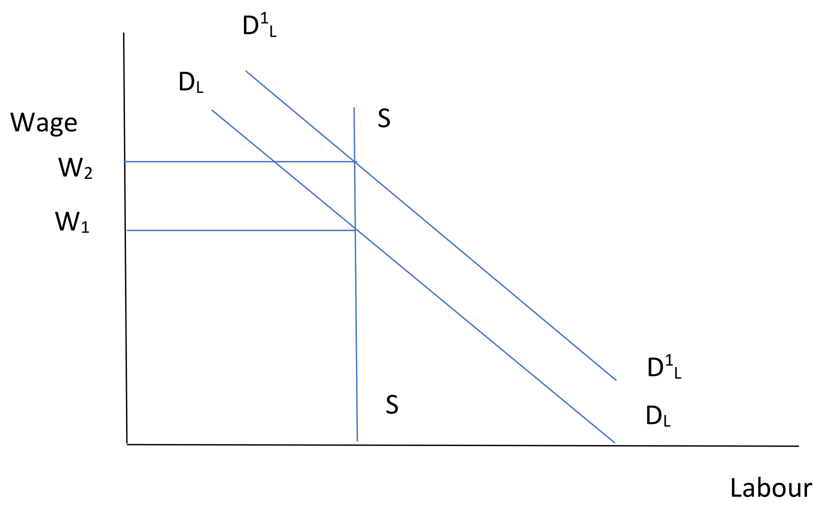


Business desired capital stock depends on cost of capital. Business takes costs of capital as a given since business is small relative to capital market. Businesses have demand for capital depending on cost. The benefit of employing capital increases as cost of capital decreases.

CAPITAL INPUT



Demand of labour in production increases as wages fall. Supply of labour is fixed based on demographics in region.



Consider the case of a decrease in the commercial property tax. This results in a decrease in cost of capital r_2. This raises the amount of capital employed, lowers the selling price of the product which in turn raises the demand for capital and demand for labour to supply the increased output Q_2.

Appendix B

Centre for Ocean Ventures & Entrepreneurship (COVE)

The HRM is at the centre of the Atlantic Region Ocean Industry – a priority industry in the Halifax economic development strategy. The Federal government recently announced the Atlantic Region Ocean Supercluster project was a successful bidder for a federal $950 million growth and technology innovation fund. The funding will work out to $125 - $250 million for the ocean supercluster. Ottawa predicts the cluster will create 3,000 jobs and contribute $14 billion to the economy.

One component of the Ocean Supercluster that has already been funded by previous Federal/Provincial programs is the COVE project. The Cove is a unique designed commercial space for ocean technology innovators located on the Halifax harbour. The Cove is:

- approximately an 8-acre site with 12 acres of accessible water lots;
- 50,000+ square feet of office, workshop and shared space, including an on-site incubation facility;
- available for occupancy starting Spring 2018.

Current rental rates are:

Office - $32/sq. ft.

Workshop - $20/sq. ft.

The Cove will include and actively seek new start-up companies. Many start-up technology companies are high risk ventures with financial support required to mitigate risk. Development agencies (ACOA, NSBI) will provide a commercial assessment of these ventures as a requirement for incentive funding. Funding agencies such as ACOA and NSBI are in a position to provide needed incentive financing for the new startup. However, with limited funding options, there could be firms for which commercial property tax relief would increase the financial viability of the startup. HRM could provide property tax relief, say up to five years for new start-ups located at the Cove. This should be provided on a case by case basis as needed given that the property tax relief is shown to be incremental and necessary for financial viability.

Appendix C

Immigration Initiative

The encouragement of immigration to the HRM is a key priority of the Halifax Economic Development strategy. Immigrants can face significant issues in the successful start-up of businesses due to cultural differences and lack of an established business network. Property tax relief in the start-up years has the potential to facilitate a greater success rate in creating sustainable immigrate businesses.

Data from the Immigration Services Association of Nova Scotia (ISANS) shows that immigrants provide economic development potential for HRM. For the most recent year of data (2017) we find that:

1. There were 82 business start-ups in Nova Scotia with a total of 29 registered and 53 non-registered.
2. 5 of these businesses located in HRM.
3. The breakdown by sector are as follows:

• Accounting related	4
• IT, digital marketing related	12
• Healthcare services, safety related	6
• Aquaculture/farming	1
• Consultants (business, finance, security, legal)	6
• Convenience stores	1
• Decorating/Event management related	3
• Restaurants/catering/food services and related	6
• Education related	4
• Cleaning services	3
• Tourism related	3
• Laundry mat	1
• Engineering	1
• Import/export, manufacturing	5
• Music related	3
• Online sales	4
• Real estate	2
• Tailor, sewing, repairs	1
• Transportation	4
• Appliance repair	2
• Art, culture related	3
• Other	7

Total	82

The design of an incubator mall centered on recent immigrants and encouraging new business start-ups would assist in overcoming unique challenges for the immigration population. Existing barriers to business development include lack of:

- Established ethnic communities
- Cultural understanding (business and general)
- Local networks
- Understanding of the business system
- Language – communication and business
- Access to financing without an established credit history
- Importing/exporting depending on country of origin

Attachment H

Macroeconomic Trends & Property Tax:

Central to the discussion about taxes and behavior of firms, is what is happening to the high-level relationships between labour, capital, saving (private and public) and investment. Both the IMF and leading macroeconomists have pointed to the emergence of "secular stagnation", an economic phenomenon characterized by a chronic deficit of investment demand, and an excess of savings, resulting in historically low real interest rates.[1] This has often been called the "New Normal", "Lower for Longer" and the "New Abnormal". Reasons for this include slowing effective labour force growth, volatility of income in retirement for workers and the relative price of capital goods and demand for physical capital declining due to investment in non-physical capital. This has been exacerbated by regressive shifts in advanced economy income distributions (inequality) and by increasing incidence of rent seeking behavior by firms immune from competition.[2]

Put simply, interest rates are at historic lows owing to a chronic deficit of *investment demand,* and as such the relative cost of capital has never been lower, implying formal firms have robust access to capital financing.

The determinants of the fall in the neutral rate of interest are all the factors affecting the supply and demand for funds. These include demographics, lower productivity growth, lower investment, rising inequality and shifting preferences for less risky assets. [3]

[1] Summers, Larry. *"Secular Stagnation",* (Florence Italy: International Monetary Fund, Secular Stagnation, Growth and Real Interest Rates)
[2] Ibid;
[3] Claeys, Gregory. *"Low Long-Term Rates: Bond Bubble or Symptom of Secular Stagnation",* (Brussels: Bruegel, European Parliament Committee on Economic and Monetary Affairs)

To further illustrate the point, the Canadian 10-year bond yield has been steadily declining along with other advanced economy sovereign bond yields, largely due to decreased risk appetite for perceived risker assets.

Additionally, the issue about declining demand for physical capital, and indeed less skilled labour affects local economies greatly. Observe two global companies with similar market capitalizations in 2014: WhatsApp and Sony

Company (2014)	Market Value (Billions)	FTEs (Estimate)
WhatsApp	$19	55
Sony	$18	128,400

Dynamics like these are becoming increasingly common, with demand for highly skilled workers and winner-take all effects of globalization, the share of national income (GDP, Y) going to labour has fallen from 63 per cent, to 59 per cent in the OECD.[4]

<u>Distilling Macroeconomic Trends to Local Policy</u>

Understanding these trends is important at the local and regional level for two reasons. First, demand for commercial space is likely to fall due to structural reasons and the changing nature of firms. Second, the cost of capital for firms has likely never been lower. As such, the extent to which commercial tax adjustments will result in meaningful economic activity is unclear at best. This implies diminishing marginal returns from reducing municipal tax on capital due to the historically low price of capital, which is forecast to remain low well into the future.

[4] Roubini, Nouriel. *"Crisis Economics: A Crash Course in the Future of Finance*", (New York: Penguin Publishing)

Attachment I

Commercial Tax Reform Letter from HRM BIDs

Dear Mayor Mike Savage and HRM Councillors,

We are writing you today to provide a stakeholder update on the progress of the commercial property tax reform process. We were pleased to be invited to the three tax reform stakeholder workshops over the past year. The purpose of these workshops was to “address concerns regarding small and independent businesses” as identified by Council’s motion in April 2015.

We were encouraged by the discussion generated, however, we have concluded that the commercial property tax powers granted to Council in 2015 by Bill 177 and Bill 52 may not be sufficient to meet the goals that Council has set out. Furthermore, it has been challenging to work towards a consensus on tax reform policy because of two issues pertaining to the definition of small business and uncertainty around modeled impacts. These issues are:

1. **The definition of a small and independent business is unclear, and it is difficult to move forward without first agreeing upon how this is defined.** We have attempted to associate “small or independent business” with common definitions from the Canada Revenue Agency and Industry Canada. However, the tax powers granted to Council are not designed to address the needs of businesses that fall under these common definitions.

2. **It has been difficult to understand the impact each tax power has on small and independent businesses based on the modelling that staff have provided.** Small and independent businesses vary by square footage and geography and are intermixed with nationals and multi-nationals. Staff have provided us with abstract modeling that does not provide sufficient detail on how these powers impact small and independent business specifically or how it impacts businesses across geographies within the municipality.

We were delighted to see planning staff explain commercial tax rates and land development in tandem at the June 4^{t}, 2018 meeting. We believe this integrated approach is key to good decision-making and that explaining the relational effects of decisions by one business unit on other business units is an important part of the consultation process.

These stakeholder meetings have helped us to achieve consensus on our collective values with regards to commercial property tax. These are:

1. **Commercial tax reform needs to promote efficient planning that protects, supports, and enhances our downtown and traditional commercial main streets.** These places are home to the majority of our small and independent businesses that support local economic development, contribute towards complete communities that service local populations, and act as regional destinations.

2. **Increased development pressure should not affect the viability of small and independent businesses in the downtown and traditional commercial main streets.**

Commercial tax policy needs to defend independent culture, heritage, local entrepreneurship and small business.

3. **Commercial tax policy needs to align with the Regional Plan goals and policies.** Specifically, the goals and policies that enhance the productivity of our regional downtowns and traditional commercial main streets as follows:
    a. Regional Plan Economic Development Goals
        i. Build a vibrant and attractive Regional Centre that attracts private investment and more residents
        ii. Promote a business climate that drives and sustains growth by improving competitiveness and by leveraging our strengths
        iii. Capitalize on our best opportunities for economic growth

As addressed above, Council's motion to specifically ease the tax burden for small business is not directly possible based on limitations of the new legislative powers given to Council. Therefore, we present the following four recommendations:

1. That Council amend their direction to staff to align their work with our collective values as stated above;
2. That staff use the powers granted by Bill 52 to set differentiated commercial property tax rates to reduce the tax burden on our downtown and traditional commercial main streets;
3. That staff use the powers granted by Bill 177 to pursue commercial tax policies that mitigate assessment spikes, particularly in the downtown and traditional commercial main streets; and
4. That Council initiate a cost of servicing study for commercial properties to support the Financial Priorities Plan as identified in the Regional Plan policy EC-16.

Respectfully submitted by the following members of the commercial property tax stakeholder group,

Spring Garden Area Business Association Downtown
Halifax Business Commission Downtown Dartmouth
Business Commission Quinpool Road Mainstreet
District Association North End Business Association
Main Street Dartmouth and Area Business Improvement District
Sackville Business Association

Attachment J

Bill 52

BILL NO. 52

Government Bill

3rd Session, 62nd General Assembly
Nova Scotia
65 Elizabeth II, 2016

An Act to Amend Chapter 39 of the Acts of 2008, the Halifax Regional Municipality Charter

CHAPTER 22
ACTS OF 2016

AS ASSENTED TO BY THE LIEUTENANT GOVERNOR
NOVEMBER 10, 2016

The Honourable Zach Churchill
Minister of Municipal Affairs

Halifax, Nova Scotia
Printed by Authority of the Speaker of the House of Assembly

Attachment K

Bill 177

BILL NO. 177

(as introduced)

2nd Session, 62nd General Assembly
Nova Scotia
65 Elizabeth II, 2016

Government Bill

Municipal Government Act (amended)
and
Halifax Regional Municipality Charter (amended)

The Honourable Zach Churchill
Minister of Municipal Affairs

First Reading: May 5, 2016

(Explanatory Note)

Second Reading: May 12, 2016

Third Reading: May 19, 2016 (WITH COMMITTEE AMENDMENTS) (LINK TO BILL AS PASSED)

Explanatory Note

This Bill amends the Municipal Government Act and the Halifax Regional Municipal Charter to